Income for your Retirement

Information about Your SDRS Retirement Benefits

Class B – Judicial



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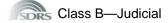
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SDRS Mission Statement

To plan, implement, and administer income replacement programs, and to encourage additional savings for retirement, all of which offer SDRS members and their families the resources and the opportunity to achieve financial security at retirement, death, or disability by providing an outstanding, appropriate, and equitable level of benefits.

The Board of Trustees believes this mission is achievable with the resources available in a progressive working environment, by sound and efficient management, through superior investment performance, and by exercising the fiduciary responsibility associated with the proper stewardship of member assets.

Section I—General Information

Introduction

The rugged beauty of South Dakota is a constant reminder of the spirit and strength of the individuals who originally settled our state. The hardships and sacrifices they endured to tame this vast territory forged a bright future for all South Dakotans. We continue to reap the benefits of their foresight and planning.

Today, with the same determination to succeed as the original settlers of South Dakota, you can achieve a financially secure retirement. The more you understand your SDRS retirement benefits, the more prepared you will be for retirement. Whether you plan to retire soon – or are just starting out with SDRS – planning for your financial future is essential right now.

To help you devise a successful long-term retirement plan, the South Dakota Retirement System provides retirement, disability, and survivor benefits to more than 65,000 people working in or retired from public service.

SDRS is a key source of dependable lifetime retirement income to you. When it is combined with Social Security benefits and your personal savings, you should have the financial protection to help you enjoy your retirement years.

The information that follows will give you a good idea of what retirement benefits you can expect to receive, how these benefits are calculated, and other information about your participation in the system.

We have tried to prepare this booklet using "non-technical" terms, avoiding the more formal language of the South Dakota law. If, in our efforts to make this easy to understand, we have omitted or misstated any of the provisions, the law must remain the final authority.

The South Dakota Retirement System is designed to exist indefinitely, but plan provisions may change from time to time. The system described in this booklet is effective July 1, 2008.

Authorized Agent

So that each member receives personal service, your employer appoints one of its employees as the authorized agent to assist you locally. The authorized agent is available to explain your benefits, answer your questions, and help you apply for benefits. If you have questions about SDRS, your authorized agent is your first source of information and help.

SDRS Identification Number

To help protect each member's identity, SDRS assigns each member of the system with an exclusive identification number. Once obtained, each member has the option on using their SDRS ID number in place of their Social Security number for communications purposes with SDRS. A member can obtain their individual SDRS ID number by registering on the secure "My SDRS" website at www.sdrs.sd.gov or by contacting SDRS directly.

SDRS Highlights

Planning for your retirement is important. Part of that planning includes having financial resources to make your retirement years comfortable and secure. The South Dakota Retirement System can help assure a predictable lifetime income for your retirement years. The program is flexible enough to meet many of your individual needs and provide the added security you need to make your retirement financially secure.

With SDRS, you choose from a number of options to put together a retirement package that is right for you.

First, you decide when you want to retire:

Normal retirement: begins at age 65 with a full benefit if you have at least three years of contributory service:

Delayed retirement: or working past your normal retirement age, is another option you might prefer;

Early retirement: can also begin as soon as you reach age 55 and have at least three years of contributory service; or

Special early retirement: provides a full benefit as early as age 55 with specific combinations of age and credited service.

Second, you choose how you want to receive your benefit:

- You normally will receive regular monthly payments for your life.
- If you retire between ages 55 and 62, you can receive larger monthly payments from SDRS until you reach age 62, when Social Security benefits begin. After age 62, your SDRS lifetime payments will be reduced.
- The SDRS portable retirement option gives you an option of taking your accumulated contributions (your member contributions and up to 100 percent of your employer contributions plus credited interest) instead of monthly SDRS lifetime retirement benefits.

Third, you do not have to worry about losing your benefit if you become disabled, leave SDRS employment before retirement, or die:

The system has the following provisions to protect your benefits:

- If you become disabled while working for an SDRS employer, you will be eligible to receive disability benefits and continue to earn credited service toward your retirement benefit.
- SDRS provides a family benefit and a spouse benefit if you die while still employed.
- If you terminate your employment before becoming eligible for retirement, but have completed at least three years of contributory service, you will still be eligible for an SDRS monthly lifetime retirement benefit when you reach retirement age.
- You have a choice of receiving your accumulated contributions under the SDRS portable retirement option in lieu of SDRS monthly lifetime retirement benefits.
- The plan will pay a monthly lifetime survivor benefit to your surviving spouse after you retire.
- When you retire with monthly lifetime retirement benefits, SDRS guarantees that you (or your beneficiaries in the event of your death) will receive no less than your accumulated contributions.

You will find more information on these subjects in the various sections of this booklet. If you need additional information, please contact the SDRS office.

SDRS Benefit Objectives

The South Dakota Retirement System is based on the belief that after you retire you should have enough lifetime income from all sources to maintain approximately the same standard of living you enjoyed during your later years of work, and that your benefit should be protected against inflation. In addition, SDRS is designed to provide an equitable distribution of benefits for both short-service and long-service members.

Based on this benefit philosophy, the goals of the system are to provide:

- Lifetime retirement income replacement of 70-85 percent of final salary including Primary Social Security for a career employee (with 20 or more years of credited service)
- · Retirement benefits directly related to length of credited service
- Partial inflation protection after retirement of an annual cost-of-living adjustment (COLA)
- The same partial inflation protection on earned benefits for vested members who leave before retirement age
- Various opportunities for early retirement after age 55 with a full benefit for career employees, and a minimal reduction for shorter-service members
- Member income protection in the event of long-term disability
- Survivor income protection in the event of the member's death before or after retirement
- Risk free interest rates credited on member and employer contributions
- A portable retirement option that allows a member to elect accumulated contributions instead of SDRS vested monthly lifetime retirement benefits
- A guarantee that the total lifetime amounts paid will equal or exceed a member's total accumulated contributions.

Participation

You participate in the South Dakota Retirement System on the day of your first contribution if you are a permanent, full-time employee of a participating employer. Permanent, full-time employees are those working at least 20 hours a week and six months a year.

Eligibility

Class B Judicial employees include members who are justices, judges, and magistrate judges. Class A and Class B Public Safety members have different benefits, which are described in separate booklets.

The following are excluded from membership in SDRS: All personnel in the Department of Labor who were employed before July 1, 1980, and who elected to remain participants in the former plan, and the governing body of any participating county, municipality, or other political subdivision.

Definitions

Accumulated Contributions are the total of your contributions and all your matching employer contributions (or 75 percent of your employer contributions if you have not completed at least three years of contributory service) to SDRS plus credited interest. The term "accumulated contributions" does not include any premiums you have paid for optional coverage for your spouse (see page 22) or the additional employer contributions paid on a member's salary in excess of the maximum taxable amount for Social Security. The interest paid on contributions will be determined by the Board of Trustees and may not exceed the 91-day U.S. Treasury Bill rate for the prior quarter. For all periods prior to July 1, 2004, the maximum interest rate was 10 percent and the minimum rate was 5 percent. Effective July 1, 2004, the maximum interest rate cannot exceed the assumed actuarial valuation interest rate (currently 7.75%) and there is no minimum rate. The interest credit will continue to be no greater than 90 percent of the 91-day U.S. Treasury Bill rate for the prior calendar year. You will receive credited interest for each completed month you are a member of SDRS.

Compensation (or salary) includes your gross wages as reported on your federal income tax form W-2, plus member contributions made after July 1, 1984, and any amount contributed to the SDRS Supplemental Retirement Plan, other tax-deferred retirement plans, your tax-deferred purchase of credited service, or a Section 125 plan.

The Internal Revenue Service limits the amount of compensation that SDRS can consider for very highly paid employees hired after June 30, 1996. If you are affected by this limitation, SDRS will notify you.

Contributory Service is the period of time you work for an SDRS employer and make contributions to SDRS.

Cost of Living Adjustment (COLA) is an annual increase in the amount of monthly benefits effective on July 1 of each year, compounded annually. Currently, the COLA is 3.1 percent per year, prorated if the benefit has not been paid for at least one year.

Credited Service is the period of time which is considered in the calculation of your retirement benefit. See page 12 for more information on earning credited service, buying additional credited service, and reinstating credited service if you leave employment and return.

Eligible Child includes:

- Your unmarried dependent child under 19 years old
- Your unmarried dependent child of any age who is totally and permanently disabled (provided the disability occurred before age 19)
- A stepchild or foster child who is dependent on you for support and living in your household
- Any child conceived during your lifetime but born after your death.

Final Average Compensation is used in calculating all SDRS benefits, including retirement benefits, disability benefits, and survivor benefits. Your final average compensation is determined by taking your average annual salary during the highest 12 consecutive calendar quarters in the last 40 quarters of membership in SDRS. (This is subject to adjustments for extraordinary payments in the final year or quarter.)

Primary Social Security is the Social Security payment for you only, not including payment for your spouse of dependents.

SDRS Employer is the state of South Dakota and any department, bureau, board, or commission of the state, or any of its governmental or political subdivisions, or any public corporation of the state of South Dakota that elects to become a participating unit.

Termination Pay (Special Pay) is compensation other than regular salary or wages accumulated by an employee and converted to a lump-sum payment by an employer at termination of employment.

Valuation Interest Rate is the investment return assumption used by the actuary to value liabilities of the system. Currently, this rate is 7.75 percent per year.

Vested means a member has the right to an annuity, payable at normal retirement from the system after three years of contributory service provided the member has not withdrawn their accumulated contributions.

Contributions

Amount of Contributions

You and your employer share the cost of your retirement benefits by contributing a percentage of your salary to the system. Each year, the total contribution will equal 18 percent of your salary – 9 percent contributed by you and 9 percent by your employer.

Your contributions are deducted from your paycheck each pay period.

Tax Advantages

Special tax advantages apply to the contributions you make to SDRS because they are made on a before-tax basis. This means that your contribution is deducted from your pay before federal withholding taxes are calculated. Under this tax-deferred plan, your take-home pay is higher than if you made your contributions on an after-tax basis. Social Security taxes are calculated on your unreduced pay.

The following example assumes you are married, have one child, file a joint tax return, and utilize the federal standard deduction. This basic example for the 2004 tax period is used only to illustrate the difference between after-tax and before-tax contributions.

	Sample After-Tax Contributions	SDRS Before-Tax Contributions
Annual Salary	\$85,000	\$85,000
Before-Tax Contributions (9%)	0	7,650
Taxable Salary	85,000	77,350
Federal Income Taxes	9,975	8,063
After-Tax Contributions (9%)	7,650	0
Remaining Income	\$67,375	\$69,287
Tax Savings	\$0	\$1,912

By making your contributions on a before-tax basis, you save \$1,912 per year in taxes. This increases your remaining income. Your employer contributions are also not taxable income to you when made. When you receive benefit payments from SDRS, you will pay taxes on the money not previously taxed, but at a more favorable rate assuming you are in a lower tax bracket after retirement.

Earnings on Your Contributions

All contributions are deposited in a trust fund and invested for the exclusive benefit of members and beneficiaries. A separate record is kept of both your contributions and your employer contributions, which are credited with interest at a rate determined by the Board of Trustees each year. For administrative efficiencies, interest is credited to your accumulated contributions once a year on June 30. However, if you or your beneficiaries become entitled to your accumulated contributions, interest will be credited for each completed month you were a member of SDRS.

Your Accumulated Contributions are Minimum Benefits

You, or your beneficiaries, are always assured of receiving the full amount of your accumulated contributions if you terminate your employment or die before being eligible for a monthly lifetime retirement benefit. In addition, the minimum amount you or your beneficiaries will receive after your retirement equals your accumulated contributions.

Credited Service

Earning Credited Service

Credited service is the period of time you work for an SDRS employer which is considered in your eligibility for benefits and the amount of benefits. Credited service represents complete or partial years of employment (you receive one-fourth of a year of credited service for each calendar quarter in which you make contributions to SDRS), as well as years of employment credited to you by retirement systems before consolidation into SDRS (before July 1, 1974).

Credited service includes time spent on authorized military leave of absence for your initial tour of duty, provided that you:

- Are employed before the leave,
- Return to public service within one year of discharge, and
- Remain employed for at least one year after returning.

Buying Additional Credited Service (On or After July 1, 2008)

Eligible members may buy additional credited service in SDRS. To be eligible, you must be a contributing member and have public employment for which you are not entitled to retirement benefits.

Your cost to purchase credited service depends on your age at the time of purchase. The cost is an actuarially determined percentage of your current salary (or final average compensation, whichever is higher). The table below shows the percentages based on age to purchase one year of credited service:

Age at Purchase	% of Combined Contributions*	% of Pay	
39 and Younger	100%	18.0%	
40	111%	19.9%	
41	121%	21.8%	
42	132%	23.8%	
43	143%	25.7%	
44	153%	27.6%	
45	164%	29.5%	
46	174%	31.3%	
47	184%	33.2%	
48	195%	35.1%	
49	205%	36.9%	
50	216%	38.8%	
51	226%	40.6%	
52	236%	42.4%	
53	246%	44.2%	
54	256%	46.0%	
55 and Older	266%	47.8%	

^{*}Class B Judicial combined member and employer contributions equal 18% of pay.



If your employer has agreed to permit tax-deferred purchases of credited service, your payment for purchased service will reduce your salary and will not be considered taxable income to you currently (like the example shown on page 11 for SDRS before-tax contributions). Your purchase must be fixed, irrevocable, and over a period not to exceed 10 years, with interest at the valuation interest rate. If you die or terminate employment before completing the purchase, your credited service will be adjusted based on the amount you paid.

If your employer has not agreed to permit tax-deferred purchases, your purchase of credited service will not be tax-deferred. You can finance your purchase over a period not to exceed 10 years, with interest at the valuation interest rate. If you die or terminate employment before completing the purchase, your spouse can complete the remaining payments within 90 days, or your credited service will be adjusted based on the amount you paid.

You may also purchase credited service by making a trustee-to-trustee transfer of funds from your individual retirement plan under section 403(b) or 457 of the Internal Revenue Code to SDRS.

Reinstating Past Credited Service

If you terminate your employment and withdraw your accumulated contributions, you will forfeit your right to any benefit under SDRS. If you are later rehired on a permanent, full-time basis, you may reinstate your past credited service if you repay any accumulated contributions you received when you left, plus interest.

The redeposit must be made no later than two years after your rehire and it must be made in a lumpsum payment. You can make the redeposit from your personal funds or by transfer from your individual retirement plan as described above.

If you received a refund of your accumulated contributions when you terminated and do not redeposit your accumulated contributions when you are rehired, you will be treated as a new employee in establishing eligibility for benefits and in determining the amount of your benefits.

When You Can Retire

Normal Retirement

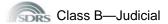
Normal retirement age is 65 if you have at least three years of contributory service under the South Dakota Retirement System. Your normal retirement date is the first day of the month of your 65th birthday.

You have several opportunities to retire before your normal retirement date, depending upon your age and years of credited service. These early retirement options are described below and on the next page.

Regular Early Retirement

If you have completed at least three years of contributory service, you may retire as early as age 55 and receive monthly lifetime benefits from SDRS. You may begin receiving retirement payments right away, or you can wait and begin receiving payments at a later date.

If you decide to begin receiving your lifetime benefit payments before age 65, your monthly payments will be reduced because it is expected that they will be stretched out over a longer period of time. This is referred to as a reduced benefit. (Special early retirement, described on the next page, is an exception to this reduction rule).



The amount of the reduction depends upon your age and years of credited service. See page 18 for more information about how regular early retirement will affect the amount of your lifetime benefit payments.

Special Early Retirement

You can retire as early as age 55 and receive full monthly lifetime benefits immediately if you meet certain credited service requirements. Usually, if you retire and begin receiving lifetime payments before age 65, the amount is reduced because payments are expected to be made over a longer period of time.

However, under special early retirement, you can retire before age 65 and begin receiving lifetime benefit payments immediately with no reduction in the monthly amount.

The table below shows the combinations of age and credited service that will produce a full benefit if you retire early and begin receiving monthly lifetime payments immediately.

Requirements for Special Early Retirement

Age	55	56	57	58	59	60	61	62	63	64	_
Years of Credited Service	25	24	23	22	21	20	19	18	17	16	

For example, under special early retirement, you can receive a full monthly lifetime benefit immediately if you retire at age 55 with 25 years of credited service, or at age 61 with 19 years, and so forth.

Delayed Retirement

You may elect to continue working beyond age 65, thus delaying your retirement. Monthly lifetime retirement benefit payments will begin once you actually retire.

When Payments Begin

Benefits paid upon retirement will begin on the first day of the month following the latest of:

- The date on which you made your last contribution to SDRS,
- 30 days after your written application for retirement benefits is received in the office of the administrator, or
- The date specified in your application for retirement

If you do not apply for benefits in a timely manner (see page 29), you may receive up to a maximum of three months of benefits retroactive to the date your contributory service ended.

The SDRS portable retirement option gives you a choice of taking your accumulated contributions instead of monthly SDRS lifetime benefits. However, the lifetime value of your SDRS monthly benefits may be worth considerably more than your accumulated contributions. See the portable retirement option explanation on page 24.

Reemployment of Retirees

Early Retirement

If you are reemployed before normal retirement age by a participating employer on a permanent, full-time basis after having retired with a reduced benefit, your monthly benefit payments will stop while you are reemployed. When you retire again (effective on or after July 1, 2004), you will be subject to the following:

- If less than three years of contributory service is performed after your reentry into covered
 employment, upon subsequent retirement, you will receive a refund of your contributions, plus 75
 percent of the employer's accumulated contributions attributable to your period of reemployment.
- If three years or more of contributory service is performed after your reentry into covered employment, upon subsequent retirement, you may elect to receive either an additional monthly benefit based on your credited service and compensation earned during the period of reemployment or 100 percent of your accumulated member and employer contributions attributable to your period of reemployment.

Special Early, Normal, or Delayed Retirement

If you are reemployed before normal retirement age by a participating employer on a permanent, full-time basis after having retired with an unreduced benefit, your monthly benefit payments will not receive COLA increases while you are reemployed. When you retire again (effective on or after July 1, 2004), you will be subject to the following:

- If less than three years of contributory service is performed after your reentry into covered
 employment, upon subsequent retirement, you will receive a refund of your contributions, plus 75
 percent of the employer's accumulated contributions attributable to your period of reemployment.
- If three years of more of contributory service is performed after your reentry into covered
 employment, upon subsequent retirement, you may elect to receive either an additional monthly
 benefit based on your credited service and compensation earned during the period of
 reemployment or 100 percent of your accumulated member and employer contributions attributable
 to your period of reemployment.

Normal or Delayed Retirement Benefits

Retirement Benefit Calculation

The South Dakota Retirement System provides defined benefits. That means your monthly lifetime benefit at retirement is based on formulas as defined in the governing statutes.

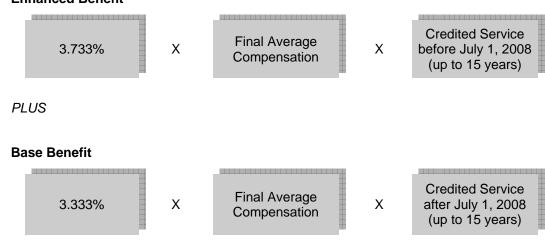
Two formulas determine your benefits at normal retirement (age 65) and at delayed retirement (after age 65). You will receive the larger benefit based on these formulas. The formulas use your years of credited service and your final average compensation, based on the later years of your career (when your salary should normally be highest). See pages 9 and 10 for definitions of these terms.

The formula and example below are used only for credited service as a Class B Judicial member. Other formulas apply for Class A members and Class B Public Safety members.

Your benefit will be calculated as follows:

For your first 15 years of credited service:

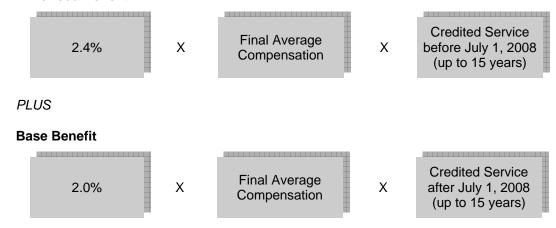
Enhanced Benefit



OR

For credited service in excess of 15 years:

Enhanced Benefit



Example

This example assumes a member retires from SDRS employment on July 1, 2010, at the age of 65 with 25 years of credited service and a final average compensation of \$85,000 (or \$7,083 a month). The benefit would be as follows:

For your first 15 years of credited service:



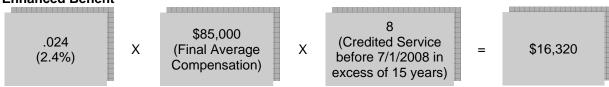
PLUS

Base Benefit



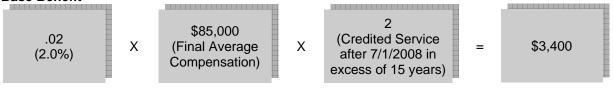
For credited service in excess of 15 years:

Enhanced Benefit

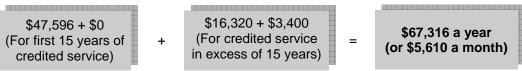


PLUS

Base Benefit



Total SDRS Benefit



In this example, SDRS will replace 79 percent of the member's final average compensation for life. Also, Social Security benefits will provide additional lifetime retirement income.

The lifetime value of the monthly SDRS benefit in this example is \$1,801,000, assuming the member lives an average number of years after retirement.

Cost-of-Living Adjustment (COLA)

Your monthly lifetime retirement benefits are protected against inflation. On the first July 1 after you retire, you receive an annual COLA increase (pro-rated if you have not been retired for a full year). Each year afterwards, your benefits are increased by the annual COLA.

Annual Personal Benefits Statement

Each year, you receive a Personal Benefits Statement showing the value of the SDRS lifetime benefits you have earned to date based on your current final average compensation and credited service. The statement also gives you an estimate of the projected monthly lifetime retirement benefits you can expect to receive from SDRS if you work until you meet the special early retirement age (Rule of 80) or until you reach normal retirement age (age 65).

Early Retirement Benefits

You may choose to retire before the normal retirement age of 65 if you are age 55 and have at least three years of contributory service.

Under **Regular Early Retirement**, you can retire at age 55 and receive a monthly lifetime retirement benefit, as long as you have at least three years of contributory service. Payments will be reduced if you start receiving benefits before age 65 (see "Early Retirement – Percent of Benefit Payable" chart on page 19).

Under **Special Early Retirement**, with certain combinations of age and credited service, you can retire as early as age 55 and begin receiving a full monthly lifetime retirement benefit immediately (see "Requirements for Special Early Retirement" chart on page 14).

The amount of reduction under Regular Early Retirement depends upon your years of credited service and your age when payments begin. If your credited service is 15 years or less and you retire early, your benefits will be reduced by 3 percent for each year that payments are made before age 65. If you have more than 20 years of credited service and choose to retire early, you will receive an even larger percentage of your benefit if you decide to receive payments immediately (see "Early Retirement – Percent of Benefit Payable" chart on page 19).

The "Early Retirement – Percent of Benefit Payable" chart on page 19 shows the percentage of your earned benefit you will receive if you retire before age 65 and payments being immediately, depending upon your age and years of credited service.

Early Retirement—Percent of Benefit Payable

Years of	Retirement Age										
Credited Service	55	56	57	58	59	60	61	62	63	64	65
15 or less	70	73	76	79	82	85	88	91	94	97	100
16	73	76	79	82	85	88	91	94	97	100	100
17	76	79	82	85	88	91	94	97	100	100	100
18	79	82	85	88	91	94	97	100	100	100	100
19	82	85	88	91	94	97	100	100	100	100	100
20	85	88	91	94	97	100	100	100	100	100	100
21	88	91	94	97	100	100	100	100	100	100	100
22	91	94	97	100	100	100	100	100	100	100	100
23	94	97	100	100	100	100	100	100	100	100	100
24	97	100	100	100	100	100	100	100	100	100	100
25 or more	100	100	100	100	100	100	100	100	100	100	100

Example 1

Retire on July 1, 2008, at age 62 with 15 years of credited service and final average compensation of \$85,000:

If a member decides to retire at age 62 with 15 years of credited service, three years before normal retirement age, the monthly lifetime retirement benefit is calculated to be \$3,966 payable at age 65. If the payments start immediately, the monthly benefit at age 62 will be \$3,609, or 91 percent of the amount payable at age 65. This is calculated by multiplying 3 percent times 3 years, for a total of a 9 percent reduction from the full benefit payable at age 65. The lifetime value of the SDRS benefit in this example is \$1,365,300.

Example 2

Retire on July 1, 2008, at age 62 with 17 years of credited service and final average compensation of \$85,000:

If a member decides to retire at age 62 with 17 years of credited service, the monthly lifetime retirement benefit at age 65 is calculated to be \$4,306. If payments start immediately, the monthly benefit beginning at age 62 will be \$4,177. In this case, the member will receive 97 percent of the benefit payable at age 65. The lifetime value of the SDRS benefit in this example is \$1,580,100.

Note that in this example, if the member had 18 years of credited service and retired at age 62, he or she would qualify for special early retirement, and could receive a full benefit (100 percent) immediately. The lifetime value of the SDRS benefit in this example is \$1,629,000

Cost-of-Living Adjustments are made to early retirement benefits, just like normal retirement benefits, as described on page 18.

Form of Benefit Payments

When you retire, you will receive your benefit in monthly payments for life. If you die after payments begin, your surviving spouse will receive 60 percent of the benefit you were receiving when you died (see page 23). If you take early retirement, you have the option of choosing the level income payment option described below. The portable retirement option gives you another payment choice as explained below.

Level Income Payment Option

The level income payment option is a payment option you may elect if you retire early (between ages 55 and 62) and decide to receive retirement benefit payments immediately. The level income payment option increases the amount of the monthly payment from SDRS until you are eligible to receive Social Security benefits at age 62. At that time, the payment from SDRS will decrease, but your replacement income from both SDRS payments and Social Security benefits will remain essentially the same as what you had been receiving from SDRS alone under the level income payment option.

The level income payment option is designed to "smooth out" the income stream to you if you elect early retirement and payments begin right away. Without the level income payment option, you would receive a benefit from SDRS but no monthly Social Security benefits initially. This would result in less total retirement income initially, since no monthly Social Security benefits would be payable to add to your SDRS benefit. At age 62, your SDRS benefit amount, plus cost-of-living adjustments, would stay about the same, but Social Security benefits would begin, greatly increasing your monthly income.

The value of your future lifetime benefits under the level income payment option is expected to equal the value of your normal lifetime payments. This option just provides a higher SDRS payment until age 62 and a smaller SDRS payment after that time.

Some additional points to consider:

- If you retire with a reduced benefit and plan to return to work in SDRS covered employment, your benefits will be suspended during your reemployment. If you are reemployed prior to age 62, you will forfeit the higher pre-age 62 benefits.
- In addition, the level income payment option significantly reduces the survivor benefit payable after age 62.
- Like all monthly benefits payable from SDRS, benefits under the level income payment option are increased each year due to the COLA.

Portable Retirement Option

The SDRS portable retirement option gives you a choice of taking your accumulated contributions instead of monthly SDRS lifetime retirement benefits. However, the lifetime value of your SDRS monthly benefits may be worth considerably more than your accumulated contributions. See the portable retirement option explanation on page 24.



If You Become Disabled

Eligibility

If you cannot work because of a disability that occurs before age 65 and is expected to last one year or longer, you may receive a monthly benefit from SDRS. This benefit is payable until you reach age 65 when retirement benefits begin, or over five years if your disability benefit starts after age 60. While you are drawing disability benefits, you continue to earn credited service toward your retirement benefit to your normal retirement age as if you were continuously employed.

You are eligible for disability benefits after three years of consecutive contributory service. However, if you are accidentally disabled while performing the usual duties of your job, you are immediately eligible for benefits. You must be a contributing member at the time you become disabled.

A disability is a medically determinable physical or mental impairment which prevents you from performing the usual duties of your job. Your employer must also certify that it is unable to provide you with comparable level employment. You will not qualify for benefits under this plan if your disability is the result of a willful or self-inflicted injury.

Amount of Benefit (For Disabilities After July 1, 2004)

If you become disabled, you will receive 50 percent of your final average compensation (see page 10). An additional 10 percent allowance is payable for each child up to a maximum of four children (see definition of eligible child, page 10). This benefit is paid for the first 36 months of disability.

Starting with the 37th month of disability, if you are eligible for and are receiving disability benefits from Social Security, you will receive the greater of:

• The amount paid during the first 36 months less the amount of Primary Social Security;

OR

• The amount of your unreduced earned retirement benefit as of the date of disability.

Regardless, the minimum disability benefit you will receive from SDRS is 20 percent of your final average compensation.

Starting with the 37th month, if you are not eligible for and receiving disability from Social Security, you will receive the greater of:

20 percent of your final average compensation;

OR

The amount of your unreduced earned retirement benefit as of the date of disability.

All disability benefits are paid monthly and are increased each year due to the COLA.

If you do not apply for disability benefits within three years of termination of your employment, you will forfeit your disability benefit.

SDRS disability benefits and your earned income during the first 36 months of disability cannot exceed 100 percent of your final average compensation. Starting with the 37th month of disability, SDRS disability benefits, your earned income, and your Primary Social Security cannot exceed 100 percent of your final average compensation. Final average compensation is increased by the annual cost-of-living adjustment. Any amount exceeding this cap will reduce the SDRS disability benefits in the following year, but not below the minimum benefits.

When You Reach Age 65

When you reach age 65 and your last eligible child has left your household (but not before five years of disability), your disability allowance will be converted to a retirement benefit.

Your retirement benefit will be calculated using the formulas for normal retirement on page 16. Your final average compensation used in the formula will be your final average compensation (see page 10) when you became disabled, multiplied by the annual cost-of-living adjustments (COLA) between the date of disability and normal retirement age. Your credited service will be your years of credited service to age 65, including the time you were disabled.

Protection for Your Survivors

Certain benefits under this plan provide protection for your spouse and dependents in the event of your death.

If You Die While Still Employed

Base Plan: A family benefit and a spouse benefit are paid monthly if you die while participating in SDRS. The family benefit is payable when children under the age of 19 are in the home, and the spouse benefit becomes effective when your spouse reaches the age of 65.

The family benefit equals 40 percent of your final average compensation (see page 10), plus an additional 10 percent per child – up to a maximum of 6 children – or up to 100 percent of your final average compensation. As each child reaches age 19, the benefit is reduced accordingly. The payments continue until all children in the home reach the age of 19. Your SDRS benefit and 75 percent of your Primary Social Security benefit combine to provide this family benefit.

A spouse benefit equal to 60 percent of your projected retirement benefit will be paid when your surviving spouse reaches the age of 65. The spouse benefit will be calculated using the normal retirement formulas on page 16. The compensation used in the formula will be your final average compensation plus annual cost-of-living adjustments. The credited service in the formula will be the years of credited service you would have earned if you had been a member of the system until age 65.

Optional Spouse Coverage: You can also purchase additional coverage which will pay a monthly salary continuation benefit to your spouse for the span of years not covered by the basic plan. The benefit equals 40 percent of your final average compensation. The benefit continues from the time all children reach the age of 19 until your surviving spouse reaches age 65.

There is a limited enrollment period for this optional coverage. A new member of SDRS may enroll in the optional coverage anytime within the first 365 days of membership. Members who have participated in SDRS for more than 365 days may elect to participate by enrolling (1) within 90 days after reaching age 35 or (2) within 90 days after the first anniversary of marriage. The cost of this coverage is 1.2 percent of your salary. The cost continues until your spouse is no longer eligible for the benefit, you or your spouse die, the termination of your marriage, or you decide to terminate coverage. If, within a 12-month period, you have terminated employment with a participating employer, withdrawn your accumulated contributions, and are reemployed, you may not elect to participate in the optional coverage as a new member of SDRS.

Eligibility

For your spouse and family to be eligible for the basic plan and optional coverage, you must:

- Be a contributing member under age 65 at the time of your death, have at least one year of credited service, or be receiving disability benefits under the basic plan;
- Be a contributing member and have made at least one contribution for the benefits under the
 optional coverage.

Survivor Benefit After Retirement

SDRS also pays survivor benefits to your spouse after you have retired. This benefit is equal to 60 percent of the benefit being paid to you at the time of your death and will continue for your spouse's lifetime with cost-of-living adjustments.

If both you and your spouse die before you have received your accumulated contributions, your named beneficiary or estate will receive the balance.

NOTE: To qualify for death benefits, your spouse must have been married to you prior to your retirement date and for at least 12 months before your death.

If You Leave Before Retirement

If You Leave Before Three Years of Contributory Service

You are entitled to receive your accumulated contributions under the portable retirement option if you leave before attaining three years of contributory service. This means that you can receive a lump sum of your member contributions and 75 percent of your employer contributions plus credited interest. To avoid immediate taxation of your benefits (and possibly additional excise taxes) you must roll over your distribution from SDRS to an eligible retirement plan. The SDRS office can provide you with additional information.

You may also leave your accumulated contributions in the system for up to 10 years from your date of termination. Interest earnings will continue to be credited for 10 years. If you have not returned to SDRS covered employment after 10 years, your accumulated contributions must be withdrawn during the 11th year. If you do not withdraw your accumulated contributions during the 11th year and SDRS is not able to locate you, you will forfeit your accumulated contributions.

If You Leave After Three Years of Contributory Service

If you terminate employment with an SDRS employer after three years of contributory service and before you are eligible for early retirement, you have a choice: You can receive a vested monthly lifetime retirement benefit as early as age 55 or you can withdraw your accumulated contributions under the portable retirement option.

The right to withdraw accumulated contributions ceases within ninety days of a return to employment with a participating unit.

Vested Lifetime Retirement Benefit

If you have at least three years of contributory service, you are a "vested" member. This means you have the right to receive a monthly lifetime retirement benefit at age 65, or a reduced amount as early as age 55, if you leave your contributions on deposit with SDRS.

Your future monthly lifetime retirement benefits are calculated by the formulas shown on page 16 based on your final average compensation and credited service when you leave employment. In addition, from the time you stop working until you actually begin receiving payments, your future monthly lifetime retirement benefits are increased annually due to the cost-of-living adjustment (COLA). For example: if you leave SDRS employment at age 45, your monthly lifetime benefit will almost double by the time you start to receive it at age 65. The COLA also continues after your payments begin.

If you elect to receive your monthly lifetime retirement benefits before age 65, they will be reduced as explained on pages 18 and 19.

Portable Retirement Option

The SDRS portable retirement option gives you a choice of taking your accumulated contributions (all of your member contributions and your employer contributions plus credited interest since you have at least three years of contributory service) instead of monthly SDRS vested lifetime retirement benefits. Before electing the portable retirement option, you should carefully compare the lifetime value of SDRS benefits to the value of your accumulated contributions. SDRS will provide you with information to make this comparison when you leave SDRS employment. In addition, to avoid immediate taxation of your benefits (and possibly additional excise taxes), you must roll over your distributions from SDRS to an eligible retirement plan.

Reemployment of Former Members

If you withdraw your accumulated contributions when you terminate and are later rehired by a participating SDRS employer on a permanent, full-time basis, you can reinstate your past credited service by redepositing your accumulated contributions, with interest at the valuation interest rate, from the date of withdrawal to the date of redeposit. This redeposit must be made within two years after your reemployment.

Supplemental Retirement Plan

The South Dakota Retirement System established the Supplemental Retirement Plan (SRP) in 1987 in an effort to encourage and provide investment vehicles necessary for long-term, tax-advantaged retirement savings for its members. This plan is an eligible plan under IRS Code Section 457 and is also referred to as a deferred compensation plan. This plan is exclusively sponsored and managed by SDRS, though SDRS has contracted with Nationwide Retirement Solutions to carry out certain functions necessary for the operations of the plan.

Plan Features

- The contributions and any earnings will have the opportunity to grow tax-deferred until they are distributed from the plan.
- The plan provides a variety of investment options and benefit payment choices.
- SRP Retirement Specialists are available to offer personal retirement planning analysis that will help you:
 - · Establish savings goals
 - Determine risk tolerance
 - Select appropriate investment options
 - Make investing for retirement part of a comprehensive financial plan
- Twenty-four hour account access is available through the SRP website at www.SRP457.com.

SRP Investment Options

With the goal of providing an assortment of competitively priced investment options to its members, SDRS and the South Dakota Investment Officer have selected the following investment funds to be accessible through the SRP for its members.

Target Retirement Funds

The plan offers eleven Vanguard Target Retirement Funds. These asset allocation funds are designed for members in various age groups who want a simple and convenient solution to their retirement savings needs. In choosing a target retirement fund, a member should consider the fund that is closest to the year they reach their expected retirement age, while also factoring in their risk tolerance, investment objective, and retirement needs. Choosing a fund that targets an earlier date represents a more conservative choice while targeting a fund with a later date is a more aggressive choice.

Large-Cap Equity Funds

The plan offers the choice of six large cap equity funds. Large-cap equity funds invest in companies that have more than ten billion dollars in capitalization and include blue-chip and Fortune 500 companies.

Mid-Cap Equity Funds

The plan offers the choice of three mid cap equity funds. Mid-cap equity funds invest in companies that have roughly between two and ten billion dollars in capitalization and often include companies that are well established and growing.

International Funds

The plan offers the choice of three international funds. International equity funds invest in stocks of companies outside the United States.

Bond Funds

The plan offers the choice of one Bond fund. Bonds are generally a more conservative form of investment than stocks, and usually provide a more steady flow of income.

Interest/Fixed/Cash Accounts

The plan offers the choice of two fixed asset funds. These are interest bearing accounts.

The performance and risks of all the funds available for participation in this plan will directly correspond to the performance and risks of the underlying holdings in which they invest.

Additional information and fund prospectuses on each of the investment options can be obtained online at www.SRP457.com or by calling an SDRS-SRP Retirement Specialist toll-free at 1-800-959-4457 or locally at 605-224-2230.

Contributions

The minimum amount needed to participate in the SRP savings plan is \$25.00 per month. The maximum amount an employee can contribute is 100% of their includible compensation or the applicable dollar amount for the year found in Internal Revenue Code Section 457(e) (15), whichever is less. The maximum applicable dollar amount for 2009 is \$16,500 for members under age 50.

Each pay period, the employee's elected SRP contribution amount will be automatically withheld from their paycheck and deposited into their SRP account. The employee can increase or decrease the SRP contribution amount at any time (unless the employer has restrictions on changes). An employee can also stop SRP contributions at any time.

Rollovers from another eligible plan into SRP are permissible; however, qualified retirement plans, deferred compensation plans, and individual retirement accounts are all different. Assets rolled over from accounts may be subject to surrender charges, other fees, and/or a 10% tax penalty if withdrawn before age 59 ½.

Plan Costs

An annual asset fee of .26% (\$0.26 per \$100) is assessed at the rate of 0.0217% each month.. This fee is in addition to the internal expense charges/management fees assessed by the respective companies providing investment alternatives under the SRP.

Distributions

If you are still actively employed, you can withdraw money from the SRP only:

- If you experience an unforeseeable emergency that is approved (in accordance with IRS rules).
- If it is a one-time withdrawal, provided your account balance is \$5,000 or less and you have not deferred into the plan for at least two years, and you have not made prior withdrawals of this type.
- Once you have reached age 70 ½.

If you leave employment or retire, your options for withdrawal from the SRP include:

- Withdrawal SRP savings as a lump-sum or partial lump-sum.
- Receive a fixed-dollar amount monthly until funds are depleted.

- Receive a percentage of the fund paid over a fixed period of time.
- Draw a monthly lifetime annuity.
- Purchase a Supplemental Pension Benefit (SPB) through the South Dakota Retirement System.
- Roll over funds to another eligible plan.
- Leave money invested in the SRP until April 1 of the year after you turn 70 ½ or you leave employment, whichever is later; at this point the IRS requires that you take the required minimum distribution.

Federal Taxes

Contributions to the plan and any earnings will have the opportunity to grow tax-deferred until they are distributed from the plan. Funds withdrawn from the SDRS-SRP (457(b) plan) are subject to federal income tax.

Additional Information

Retirement Specialists are registered representatives of Nationwide Investment Services Corporation, a member of FINRA. Information provided by an SDRS-SRP Retirement Specialist is for educational purposes only and is not intended as investment advice. Neither Nationwide nor its representatives give legal or tax advice. Please consult with a tax or legal advisor for such advice.

To request additional information regarding the savings options and participation in the SRP:

Call: (800) 959-4457

(605) 224-2230

Write: SDRS—SRP Office

222 East Capitol Avenue, Suite 8

Pierre, SD 57501

Fax: (605) 224-2395

Website: www.SRP457.com

Special Pay Plan

The SDRS Special Pay Plan (SPP) is an additional retirement plan funded by an eligible employee's termination pay (see page 9). Special pay may include unused annual leave, unused sick leave, or other lump-sum termination pay that is eligible for contribution into the SPP. An eligible employer's non-elective contributions of special pay to the SPP are forever excluded from the employee's gross income for purposes of Social Security (FICA) withholding and SDRS contribution payment. Also, an employer's special pay contributions to the SPP are not included in an employee's gross income, so the contribution and any income or earnings would not be subject to federal income tax until distributed from the Plan.

Eligibility

The following employees are eligible for the SPP:

- Employees of the State of South Dakota, the Board of Regents, or employees of other employer units who have elected to participate
- Employees who have reached the first day of the calendar month prior to their 55th birthday and are receiving special pay of \$600 or more.

Plan Costs

The ongoing costs of providing this benefit are paid by those who participate in the Plan. There is no cost to you for the first 12 months you have the account open—this cost is paid by your employer. Beginning in the second year, you will be responsible for a cost of 0.26% of account assets annually. If you were a participant in the Plan prior to July 1, 2007, your fee structure may be different.

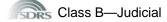
These fees are in addition to the internal expense charges/management fees assessed by the companies providing investment alternatives under the SPP.

Maximum Deferral Amount

Contributions to the SPP are subject to Internal Revenue Code Section 415 limits and cannot exceed the lesser of 100% of the employee's special pay or \$49,000 (indexed for 2009). If your special pay is more than \$49,000 for 2009, you may be able to defer a portion of this amount into the SRP. Please contact the Plan Administrator to determine if you are eligible for that option.

Plan Features

- Special pay contributed to the Plan as a non-elective employer contribution is forever excluded from an employee's gross income for Social Security (FICA) withholding purposes and SDRS contribution payment.
- The contributions and any earnings will have the opportunity to grow tax-deferred until they are distributed from the Plan.
- The SPP has the same investment options as offered by the SRP. (See investment options on pages 25 and 26.)
- Contributions do not reduce the SRP (457) contribution limits.
- Plan participants are immediately vested.
- Retirement Specialists are available by phone to assist you with account changes.
- Participants receive quarterly statements, newsletters, and investment performance reports.
- Twenty-four hour SPP account access is available through the SRP website at SRP457.com.



Payout Options

Plan participants are vested in the SPP as soon as the employer transmits the funds to the SPP, and are eligible for an immediate distribution from the Plan upon written request at age 55. All distributions from the SPP are subject to federal income tax withholding unless they are rolled into another eligible retirement plan or IRA. Distributions will be taxed as ordinary income. The available distribution options are:

- SDRS—Supplemental Pension Benefit (SPB)
- Lump-sum withdrawal
- · Partial lump-sum withdrawals
- Fixed-dollar amount
- Fixed-period payment
- Annuity payout options*
 - * Annuities are issued only by Prudential Life Insurance Company, 751 Broad St., Newark, NJ 07102
- Rollover to another eligible retirement plan or IRA

Additional Information

Retirement Specialists are registered representatives of Nationwide Investment Services Corporation, a member of FINRA. Information provided by an SDRS-SRP Retirement Specialist is for educational purposes only and is not intended as investment advice. Neither Nationwide nor any of its representatives give legal or tax advice. Federal tax laws are complex and subject to change. Consult your tax or legal advisor for answers to your specific questions.

To request additional information regarding the SPP:

Call: (800) 959-4457

(605) 224-2230

Write: SDRS—SRP Office

222 East Capitol Avenue, Suite 8

Pierre, SD 57501

Fax: (605) 224-2395

Website: www.SRP457.com

Section VI—Supplemental Pension Benefit

Supplemental Pension Benefit

The South Dakota Retirement System created the Supplemental Pension Benefit (SPB) as a companion benefit to the SDRS Supplemental Retirement Plan (SRP), also referred to as the 457 plan, and the SDRS Special Pay Plan (SPP). The SPB became effective July 1, 2008. The Supplemental Pension Benefit is a financial process that can be used to provide additional financial security during retirement through guaranteed lifetime monthly benefit payments, with guaranteed cost-of-living adjustments. Survivor benefits are available depending on your marital status at the time the SPB is established.

Any SDRS member is eligible to participate in the SPB program if they:

- have terminated employment, and
- are currently receiving an SDRS monthly retirement benefit, and
- have at least \$10,000 in their Supplemental Retirement Plan or Special Pay Plan, or in a combination of both.

A member who has retired and has returned to SDRS covered employment will not be allowed to purchase a SPB while employed because IRS law will not allow the transfer of §457 funds unless the member is in termination status.

The Supplemental Pension Benefit program has been designed to provide members with an opportunity to enhance their primary SDRS retirement benefit by allowing them to convert funds from their SRP and/or SPP savings plans to establish an additional lifetime benefit. As only one SPB conversion per retiree, per lifetime is allowed by law, it is important to note that the SPB is an optional benefit and can be elected at any time during the member's retirement. There is no requirement that a member must exercise the SPB option at any specific time, if at all, but it is irrevocable once exercised.

SDRS has established a calculator to help determine the cost versus the benefit of participating in the Supplemental Pension Benefit program. The calculator is a planning tool that a member can use to estimate the amount of an SPB monthly benefit based on the amount of money transferred from their SRP and/or SPP account. This calculator is available through the SDRS website at www.sdrs.sd.gov. Members are cautioned to make sure they have additional savings before committing any or all of their SRP/SPP funds to this program.

To request additional information on the SPB program:

Call: (888) 605-SDRS

(605) 773-3731

Write: South Dakota Retirement System

P.O. Box 1098

Pierre, SD 57501-1098

Fax: (605) 773-3949

Website: www.sdrs.sd.gov

Section V—Additional Information

Social Security Benefits

Social Security benefits add to your SDRS benefits to provide dependable income for your retirement years. Throughout your working career, you and your employer contribute amounts set by federal law to provide Social Security benefits when you retire.

At retirement, these benefits will include monthly payments beginning as early as age 62, or sooner if you become disabled or die. Hospital and medical benefits begin for you and your dependents at age 65, or earlier in case of disability. Your dependents may also qualify for survivor benefits.

The calculation of your monthly Social Security benefit is complicated and requires detailed information about your age, date of retirement, disability or death, and your year-by-year earnings history. The Social Security Administration makes this calculation for you when you retire.

Detailed information about monthly payments and Medicare coverage is available from the local Social Security office. Representatives will answer your questions and provide booklets about Social Security programs. You may contact the Social Security Administration toll-free at 1-800-772-1213. The location of your nearest local office can be found in the telephone directory under "U.S. Government, Social Security Administration."

SDRS Administration

Control and Administration

The Board of Trustees of the South Dakota Retirement System consists of:

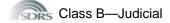
- Two elected state employee members
- Two elected teacher members
- An elected participating municipal employee member
- An elected participating county employee member
- An elected participating classified employee member
- An elected participating Class B Public Safety member
- An elected justice, judge, or magistrate judge
- One head of a principal department or one head of a bureau under the office of executive management appointed by the Governor
- An individual appointed by the Governor
- · An elected county commissioner of a participating county
- · An elected school district board member
- An elected municipal official of a participating municipality
- An elected retiree, and
- An elected faculty or administrative member employed by the board of regents and not subject to the provisions of chapter 3-6A.

A representative of the state investment council serves as an ex-officio nonvoting member.

Responsibilities of the Board of Trustees

The Board of Trustees is the governing authority of the system and is responsible for:

- Formulating and communicating a sound pension policy
- Establishing goals and objectives for SDRS
- Ensuring the financial integrity of the system
- Proposing legislative changes believed necessary or beneficial
- Adopting rules necessary to implement the governing statutes
- Adjudicating disputes arising under the system
- Adopting an administrative budget and submitting it to the executive and legislative branches of state government for approval
- Appointing an administrator as the chief executive and operations officer of the system and establishing the compensation for that position.



Obtaining Your Benefits

Applications for benefit payments should be made to the administrator on forms provided by the system.

When you decide to retire, you should notify SDRS at least 45 days in advance of the date you want payments to begin.

If you terminate your employment with a participating unit of SDRS before you are eligible for early retirement, you should discuss your status as a vested member and the value of your SDRS lifetime retirement benefits. Before you elect to receive your accumulated contributions under the portable retirement option, you should carefully evaluate the information SDRS will provide you. See page 24.

Appeal Procedure

If the administrator has any reason to question an application for benefits, it may be forwarded to the Board of Trustees for further review. You may also request a hearing before the Board of Trustees.

Effect on Employment

The plan in no way guarantees you continued employment with an employer participating in SDRS. If you terminate your employment or if you are discharged, SDRS does not give you any right to any benefit or interest in the funds contributed by your employer or earned by the retirement trust fund, except as specifically provided in the South Dakota law and the provisions of the portable retirement option.

Similarly, terminated or retired members are not prohibited from receiving or continuing to receive retirement benefits, if eligible under SDRS, because they obtain employment with a nonparticipating employer.

Assignment of Benefits

The system is intended to pay benefits only to you or your beneficiaries. Your benefits cannot be used as collateral for loans or be assigned in any other way, except as required under a qualified domestic relations order.

For more information on the South Dakota Retirement System:

Call: (888) 605-SDRS

(605) 773-3731

Write: South Dakota Retirement System

P.O. Box 1098

Pierre, SD 57501-1098

Fax: (605) 773-3949

Website: www.sdrs.sd.gov

